

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SSM-05 CIAE-00 DODE-00 PM-04 H-02
INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02
SS-15 USIA-15 AID-05 COME-00 EB-07 FRB-01 TRSE-00
XMB-04 OPIC-06 LAB-04 EPG-02 SIL-01 OMB-01 /103 W
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TO SECSTATE WASHDC 6346

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E.O. 11652: N/A
TAGS:ECON, IS
SUBJECT: MILTON FRIEDMAN INVITED TO SERVE AS GOI ECONOMIC ADVISOR

1. SUMMARY: THE LIKUD PARTY, MOVING QUICKLY AFTER ITS ELECTION VICTORY, HAS ASKED PROFESSOR MILTON FRIEDMAN, UNIVERSITY OF CHICAGO, TO ACT AS THE NEW GOVERNMENT'S ECONOMIC ADVISOR. HE REPORTEDLY HAS ACCEPTED THE INVITATION AND WILL ARRIVE IN ISRAEL NEAR THE END OF JUNE. WHILE FLATTERED THAT AN ECONOMIST OF PROFESSOR FRIEDMAN'S FAME AND CREDENTIALS WOULD AGREE TO ADVISE THE NEW GOVERNMENT, MOST ISRAELI OBSERVERS DOUBT THAT VERY MANY OF HIS IDEAS WILL BE ACCEPTED OR EVEN BE PARTICULARLY RELEVANT FOR ISRAEL'S "SPECIAL CASE" ECONOMY. END SUMMARY.

2. MK YEHEZKEL FLOMIN, WHO REPRESENTS THE LIBERAL WING OF LIKUD AND WILL PROBABLY BE EITHER DEPUTY FINANCE MINISTER OR HEAD OF THE KNESSET FINANCE COMMITTEE IN THE NEW GOVERNMENT, CONFIRMED TO AN EMBASSY OFFICER THAT LIKUD HAD INDEED EXTENDED THE INVITATION TO FRIEDMAN. PROFESSOR FRIEDMAN'S RECOMMENDATIONS, HE SAID, WILL SERVE AS GUIDELINES TO MOVE AWAY FROM THE SOCIALIST MODEL TOWARDS A MORE FREE, MIXED ECONOMY (TEL AVIV 3702).

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3. IN AN INTERVIEW WITH THE JERUSALEM POST, PROFESSOR FRIEDMAN SAID THAT ISRAEL'S PROBLEMS WERE LARGELY THE RESULT OF TOO MUCH GOVERNMENT INVOLVEMENT IN BUSINESS AND OVERREGULATION OF THE PRIVATE SECTOR. ISRAEL SHOULD IMMEDIATELY REDUCE GOVERNMENT SPENDING AND CUT BACK ON THE AMOUNT OF GOVERNMENT MONEY IN CIRCULATION. HE ADDED THAT THE BASIC OBJECTIVE OF THE NEW GOVERNMENT

SHOULD BE GREATER PRIVATE OWNERSHIP OF INDUSTRIES IN ISRAEL. IN REMARKS ON UNEMPLOYMENT THAT WILL BE CONTROVERSIAL, ESPECIALLY IN VIEW OF THE UPCOMING HISTADRUT ELECTIONS, PROFESSOR FRIEDMAN SUGGESTED THAT ISRAEL USE A FREE MARKET APPROACH TO EMPLOYMENT. WHEN TOLD THAT THE QUESTION OF UNEMPLOYMENT WAS A SACRED COW IN ISRAEL, HE REPLIED THAT "THERE ARE A LOT OF SACRED COWS, BUT YOU GET BURIED BY WHAT THE COWS PRODUCE."

4. THE INVITATION ILLUSTRATES THE LEADING ROLE THAT THE LIBERALS EXPECT TO PLAY IN FORMULATING ECONOMIC POLICY. HOW SUCCESSFUL THEY WILL BE REMAINS TO BE SEEN. ISRAEL HAS A GOOD NUMBER OF TOP-NOTCH ECONOMISTS, INCLUDING SOME FROM THE CHICAGO SCHOOL (DON PATINKIN, AMONG OTHERS), BUT FEW ARE OF THE TRUE CLASSIC MOLD THAT WOULD REMOVE GOVERNMENT ACTIVITY FROM THE ECONOMY. THE LIBERALS' CALL FOR MINIMUM GOVERNMENT INTERFERENCE IN THE ECONOMY IS DRAWN FROM CLASSIC NINETEENTH CENTURY LIBERALISM AND THEY WILL CERTAINLY NEED THE IMPRIMATUR OF A NOBEL PRIZE WINNER IN GETTING THEIR POLICES APPROVED.

5. HISTADRUT SECRETARY-GENERAL YERUHAM MESHEL HAS PREDICTABLY OBJECTED STRENUOUSLY TO PROFESSOR FRIEDMAN'S SUGGESTION THAT FREE MARKET FORCES BE ALLOWED TO WORK IN THE LABOR MARKET, STATING THAT CURBING INFLATION THROUGH UNEMPLOYMENT RUNS COUNTER TO THE CONTENT OF MEANING AND PRINCIPLES OF ISRAELI SOCIETY, INCLUDING UNCLASSIFIED

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A 30-YEAR COMMITMENT TO FULL EMPLOYMENT.

6. TRANSPORT MINISTER GAD YA'ACOB, FOR HIS PART, TOLD A PRESS CONFERENCE THAT IT WILL BE DIFFICULT AND UNDESIRABLE TO IMPLEMENT FRIEDMAN'S IDEAS IN ISRAEL AND THAT WHILE HE ADMIRES FRIEDMAN AS AN ECONOMIST, HIS EXTREME IDEAS ARE NOT ACCEPTED IN THE U.S. YA'ACOB IS ONE OF THE MORE CONSERVATIVE MEMBERS OF THE LABOR PARTY.

7. IN EDITORIAL COMMENT, HAARETZ STATES THAT PROFESSOR FRIEDMAN'S "APPROACHES WERE REJECTED BY THE MAJOR STREAM OF ECONOMIC THEORY AND BY POLITICIANS IN THE WESTERN WORLD, INCLUDING REPUBLICAN ADMINISTRATIONS IN THE U.S. THE ASSUMPTION THAT ANY ISRAELI GOVERNMENT, INCLUDING A GOVERNMENT WHICH ADVOCATES FREE ENTERPRISE AND MINIMAL INTERVENTION IN THE ECONOMY, CAN BE ASSISTED EFFECTIVELY BY HIS ADVICE IS QUESTIONABLE. IT IS MORE REASONABLE TO ASSUME THAT SUCH A COOPERATION

WILL YIELD BITTERNESS TO BOTH SIDES AND BENEFIT TO NO ONE." DAVAR ADDS THAT "IT IS DIFFICULT TO FIND A MORE TYPICAL REPRESENTATIVE OF THE CONSERVATIVE CONCEPTION EVEN IN THE UNITED STATES, AND THE MORE SO IN EUROPE...THE ADVICE OF PROFESSOR MILTON FRIEDMAN MAY STRENGTHEN THE ECONOMIC OBJECTIVES OF THE LIKUD, BUT WILL NOT STRENGTHEN THE ECONOMY OF ISRAEL, AND, NO DOUBT, WILL HEAVILY HIT ITS SOCIAL STRUCTURE."

8. IT IS INTERESTING THAT LIKUD'S HERUT LEADERS HAVE NOT COMMENTED ON THE FRIEDMAN INVITATION. THEY ARE DOUBTLESS AWARE THAT A FREE MARKET APPROACH TO THE LABOR SCENE WOULD, AT LEAST IN THE SHORT RUN, CAUSE THEM DIFFICULTIES WITH, INTER ALIA, THE SEPHARDIC JEWISH COMMUNITY, ONE OF THEIR MOST IMPORTANT CONSTITUENCIES. MENACHEM BEGIN HAS HIMSELF OFTEN BEEN QUOTED AS FAVORING THE MAINTENANCE OF FULL EMPLOYMENT. IN ANY EVENT, THE UNCLASSIFIED

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FRIEDMAN INVITATION WILL LIKELY BE PLAYED DOWN AS THE HISTADRUT ELECTION APPROACHES.
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